



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE BOARD OF INVESTMENT

**COMPLIANCE EXAMINATION
For the Year Ended: June 30, 2010**

Release Date: March 24, 2011

Summary of Findings:

Total this audit:	1
Total last audit:	2
Repeated from last audit:	0

SYNOPSIS

- ISBI did not comply with certain statutory mandate requirements.

{Expenditures and Activity Measures are summarized on the reverse page.}

**ILLINOIS STATE BOARD OF INVESTMENT
COMPLIANCE EXAMINATION
For The Year Ended June 30, 2010**

SCHEDULE OF OPERATIONS	FY 2010	FY 2009
REVENUE: Investment Income - Interest.....	\$ 128,588,561	\$ 145,432,334
Investment Income - Dividends.....	114,725,819	116,732,339
Investment Income - Securities Lending.....	6,605,329	17,578,262
Realized Gain / (Loss) on Investments.....	178,915,029	(1,304,768,681)
Unrealized Gain / (Loss) on Investments.....	455,098,197	(1,287,700,460)
Total Investment Income / (Loss).....	\$ 883,932,935	\$ (2,312,726,206)
External Support (Investment Expense).....	(35,210,736)	(39,068,759)
Net Investment Income / (Loss).....	\$ 848,722,199	\$ (2,351,794,965)
EXPENSES: Operating Expenses.....	\$ (2,474,041)	\$ (2,203,924)
Revenue Over / (Under) Expenses.....	\$ 846,248,158	\$ (2,353,998,889)
INVESTMENT PORTFOLIO ANALYSIS - Fair Value	June 30, 2010	June 30, 2009
Total Government and Agency Obligations.....	\$ 810,739,312	\$ 665,018,889
Total Corporate Obligations.....	925,668,388	668,047,761
Foreign Obligations.....	44,409,906	33,237,090
U.S. Common Stock & Equities & Commingled Funds.....	3,127,655,201	2,945,702,917
Preferred Stock.....	517,676	286,429
Non - U.S. Equity Securities.....	1,733,357,594	1,482,642,287
Real Estate Investments.....	750,210,957	875,929,700
Private Equity.....	542,441,291	450,491,810
Infrastructure Funds.....	320,293,041	305,969,947
Hedge Funds.....	917,854,201	880,939,190
Money Market Investments.....	270,231,935	235,126,490
Bank Loans.....	222,623,999	197,259,098
Forward Foreign Currency Contracts.....	(266,410)	(5,594,545)
Total Investment Portfolio.....	\$ 9,665,737,091	\$ 8,735,057,063
INVESTMENT ALLOCATION	June 30, 2010	June 30, 2009
U.S. Equity & Commingled Funds.....	32%	34%
U.S. Equity Hedge Funds.....	10%	10%
International Equity.....	18%	17%
Fixed Income.....	18%	16%
Real Estate.....	8%	10%
Private Equity.....	6%	5%
Infrastructure.....	3%	4%
Bank Loans.....	2%	2%
Cash.....	3%	2%
Total.....	100%	100%
SELECTED INVESTMENT RETURNS ACTUAL (bold) & BENCHMARK (unaudited)	June 30, 2010	June 30, 2009
Total Fund.....	9.1%	(20.1)%
Composite benchmark.....	10.2%	(17.0)%
U.S. Equities.....	17.3%	(25.1)%
Russell 300 Index.....	15.7%	(26.6)%
International Equities.....	13.1%	(29.1)%
MSCI-EAFE Index.....	6.4%	(31.0)%
Fixed Income.....	5.5%	(2.4)%
Barclays Capital Universal Index.....	10.6%	4.9%
Real Estate.....	(8.2)%	(31.7)%
NCRIF Real Estate Index.....	(1.5)%	(19.6)%
EXECUTIVE DIRECTOR		
During Engagement Period: William R. Atwood		
Currently: William R. Atwood		

INTRODUCTION

This digest covers our compliance attestation examination of the Illinois State Board of Investment for the year ended June 30, 2010. A financial audit covering the year ended June 30, 2010 was previously released on January 27, 2011.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATUTORY MANDATES

The Illinois State Board of Investment (ISBI) did not comply with mandate requirements related to the management of the Power Agency Trust Fund, quarterly and annual financial reporting, and publishing information on their website.

ISBI did not manage the investments of the Power Agency Trust Fund

We noted that ISBI was not in compliance with the State Finance Act that requires ISBI to manage the investments in the Power Agency Trust Fund once the fund has reached a balance of \$25 million. We noted that the Power Agency Trust Fund amounted to a balance of \$25 million in FY08, but ISBI has not been managing the investments in the Power Agency Trust Fund in the current fiscal year or any prior years.

We also noted that ISBI was not in compliance with the Illinois Pension Code that requires a quarterly report to each pension fund under its jurisdiction and an annual report to each pension fund. The mandate requires that the quarterly reports include a full description of the investments acquired showing average costs and a full description of securities sold or exchanged; however, we noted this information was not provided.

ISBI did not update its website timely

During our testing of revenues and receipts, we noted that ISBI did not update its monthly financial information to their website by the 15th of the following month as required by the Accountability for the Investment of Public Funds Act. Furthermore, ISBI does not have a published list of approved depository institutions, commercial paper issuers, or broker dealers.

According to ISBI management, ISBI was unaware of the specific requirements of these mandates.

We recommended ISBI perform a periodic review of general mandates and those specific to ISBI to ensure compliance with State statutes and regulations. (Finding 1, pages 7-8)

ISBI agrees with auditors

Management agreed with the recommendation and indicated they will incorporate the Power Agency Trust Fund and the Accountability of the Investment of Public Funds Act into its function. The Power Agency Trust Fund is currently under \$25 million but the Board will work with the Illinois State Treasurer so as to monitor when the fund has a balance of \$25 million or more in order to manage the fund investment. Procedures are also being implemented to ensure that investment summary information is updated by the 15th of the month. Also the Board will incorporate sufficient information concerning the investment of public funds held by the Board into the Board website to comply with all of the requirements of the Accountability of the Investment of Public Funds Act.

ACCOUNTANTS' REPORT

We conducted a compliance attestation examination of the Board for the year ended June 30, 2010 as required by the Illinois State Auditing Act. The accountants' report does not contain any scope limitations, disclosures or other significant non-standard language.



WILLIAM G. HOLLAND
Auditor General

WGH:AKS

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen LLP were our Special Assistant Auditors for this engagement.